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C O N F I D E N T I A L SECTION 01 OF 02 TAIPEI 003483

SIPDIS

STATE FOR EAP/TC AND NP/ECC
STATE PASS USTR KI
STATE PASS AIT/W RUZICKA

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TAGS: [ETTC](#) [KSTC](#) [PARM](#) [TW](#)

SUBJECT: BOFT PROVIDES MORE INFO ON EXPORT CONTROLS

REF: A. A) STATE 213006

[B. B\) TAIPEI 3114](#)

[C. C\) STATE 215802](#)

Classified By: AIT Deputy Douglas Paal; Reasons: 1.4 (b/d)

[11.](#) (C) Summary: Taiwan,s Board of Foreign Trade (BOFT) officials relayed to AIT on November 1 new information that shows the Ching Hwee Company (which we discussed earlier with Taiwan, see ref B) has played a dominant role in Taiwan's machinery exports to North Korea. BOFT investigations (per ref C request) into the Royal Richard Company revealed little trading activity, and no imports from China or exports to North Korea. AIT notified BOFT the U.S. will not provide EXBS training November 2-5. End summary.

Restricted Customs Data Gives Insights

[12.](#) (C) BOFT Import-Export Administration Director Peter Ho provided AIT with restricted Taiwan Customs data from 2001 through May of this year on all imports and exports of the Ching Hwee Trading Company, a Taiwan company known to export sophisticated machine tools to North Korea. The data makes it clear that Ching Hwee has negligible imports. Over half of all Ching Hwee exports, by value, go to North Korea. Its exports to North Korea in the first five months of 2004 totaled USD 666,468, accounting for 65 percent of its total export sales. Over 95 percent of Ching Hwee's exports to North Korea are machine tools. In some machine tool tariff categories, Ching Hwee accounts for 100 percent of Taiwan,s exports to North Korea, and in some other tariff categories it accounts for the majority of Taiwan,s exports to North Korea by value. In 2002, for example, Ching Hwee alone accounted for all of Taiwan's exports to North Korea of machining centers, numerically controlled lathes, and numerically controlled shearing machines. Ching Hwee also exports to Australia, China, Iran, Jordan, Pakistan, Singapore, South Korea and Vietnam.

[13.](#) (C) Director Ho said the owners of Ching Hwee denied having any joint venture with the Ryonha Machinery J/V Corporation of North Korea, as reported in ref A talking points. The owners told BOFT that they believed Ryonha had a joint venture with a Japanese company. Most of the machine tools sold by Ching Hwee use Mitsubishi computer numerical controller (CNC) panels. BOFT has determined that Ching Hwee is only a trading company that does not actually produce any of the products it trades (ref B). As part of its investigation into machine tool exports to North Korea, BOFT has identified five local companies that manufacture the machine tools exported by Ching Hwee, and it is looking into the nature of the relation between Ching Hwee and these five manufacturers to see if there are any common owners or other significant links. Ching Hwee told BOFT that contrary to the usual practice in machine tool sales, it does not provide any warranty or after sales service to the machines it sells to North Korea.

AIT, BOFT and Taiwan Customs Visit Machine Tool Factories

[14.](#) (C) BOFT has recently begun organizing export control training for Taiwan Customs officials. Two AIT representatives joined a training tour of machine tool factories in central Taiwan (reported septel). The factories that the Customs officials visited on this training tour were not suspected of any illegal activity, but were requested to provide basic information on how to identify high performance machine tools. The factory executives emphasized the importance of software and the CNC panel as decisive in determining the capabilities of any machine tool. They also noted that warranty and after-sales service, including periodic software updates, were normally key considerations in machine tool sales.

Ho Notes that Critical Parts Not of Taiwan Origin

[15.](#) (C) While discussing the lessons learned from the joint AIT/BOFT/Customs training tour, Director Ho noted that Taiwan did not manufacture any sophisticated CNC panels; rather, it

invariably imported these components from Japan and Germany. Before these products can be exported to Taiwan from Japan or Germany, high-tech CNC panels must have export licenses and end-user verifications issued by the country of origin. Director Ho said it was unclear whether imported high-tech CNC panels were already installed on the machine tools that Ching Hwee had exported to North Korea. He agreed with the AIT suggestion that this issue should be investigated further. Ho said the Taiwan Industrial Research Institute (ITRI) is currently assisting BOFT in determining if past Ching Hwee exports included controlled items. In the cases researched so far by ITRI, the item descriptions provided by Ching Hwee indicated that a less sophisticated type of control was shipped with the machine tools sent to North Korea.

Royal Richard Not a Major Trading Company

16. (C) BOFT reported that in response to ref C demarche, it had investigated the Royal Richard Taiwan Company Limited and found that it has made only two international transactions in 2004. According to Taiwan Customs data, in May, Royal Richard imported a single item from South Korea valued at USD 180 and in August, it exported a single item to Ghana worth USD 411. The value of these items did not meet the threshold for recording the item description in regular reports, but BOFT is currently seeking additional information. Director Ho clarified that while Taiwan has a law against brokering military-use items, and has pending legislation covering the transfer of sensitive technologies, it does not have any law against brokering dual-use chemicals if the item never transits Taiwan. He pointed out that in this case, it was the responsibility of the PRC law enforcement agencies to enforce their laws against exporting the chemical to North Korea. Director Ho also indicated that Taiwan has provisions for maintaining export controls even for items transiting through free trade zones.

17. (C) Comment: That BOFT has provided us with restricted Customs data shows again a willingness to go beyond the letter of the law in cooperating on export controls. That BOFT would on its own organize export training for Taiwan Customs shows initiative. BOFT seemed to take in stride our notification that the EXBS training will not be held November 2-5. End comment.
PAAL